UBI-eh?

Strengthening minimum income guarantees, universality and unconditionality in the UK working-age welfare state

IPR Report

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Introduction

Introduction

Proposals for Universal Basic Income (UBI) have risen in political salience in the last decade, in both OECD countries and the Global South. According to the definition of the Basic Income Earth Network, a UBI is 'a periodic cash payment unconditionally delivered to all on an individual basis, without means-test or work requirement' (Torry, 2019). UBI is advocated as a solution, variously, to: poverty and destitution, dependence on precarious employment and labour exploitation, the impact of automation on labour markets, and unsustainable environmental resource extraction (Reed et al., 2022; Standing, 2011; Wright, 2004; Andersson, 2010). It is motivated by normative concerns ranging from 'real freedom' to republican liberty, equality and sufficiency (Van Parijs, 1996: Petitt, 2007; Bidadanure, 2019).

Policymakers, community activists and advocates of UBI have increasingly used pilot projects to generate empirical evidence on the effects of basic income schemes, and to pragmatically experiment with their administration and implementation (Chrisp et al., 2022; Howard et al., 2023). Many of these schemes are 'UBI-like': that is, they meet one, or a number, but not all of the characteristics of a UBI as defined by the Basic Income Earth Network. Typically, they are unconditional with respect to job search requirements and sanctions but not in terms of targeting, whether by income or status. As we discuss below, this pragmatism and flexibility with respect to the precise definition of UBI is typical of the ways in which the policy is understood and advocated in electoral politics (Chrisp, 2020).

Scholars have also undertaken several microsimulations of the costs and benefits and distributional consequences of UBI proposals in different national contexts (Martinelli, 2020; Richiardi, 2022; Torry, 2016; Reed et al., 2022; Browne and Immervoll, 2018). These microsimulations can be used to quantify the costs, distributional effects on different households, and impacts on poverty and inequality of UBI schemes. Many are 'fiscally neutral', that is, they offset the increased public expenditure on UBI schemes through tax increases and/or cuts to social security benefits, and model the impact accordingly. Others advocate for sovereign-money funded UBI schemes (Crocker, 2020).

In this report, we pursue an alternative strategy. Instead of modelling a UBI scheme that could be introduced as a single or 'big bang' reform, we consider a series of incremental, pragmatic reforms that might be considered steps and stages on the road to a UBI as well as worthwhile in their own right. We do so in the context of a particular national welfare state, the liberal 'Beveridgean' social security system of the United Kingdom. Our approach has a twofold motivation. First, we seek to use the normative principles informing UBI proposals – of universality, unconditionality, and basic minima – to guide a set of reforms to the main working-age benefits of the UK, incrementally reforming the latter to better approximate those principles. Second, we aim to inform political consideration of UBI proposals, recognising that most politicians and

policymakers do not seek to implement a 'full' UBI in a single Parliament but to make 'steps' towards a UBI or use a UBI as a critique of the existing system.

This approach reflects research into the political economy and politics of UBI, which finds that advocacy for UBI is highly multi-dimensional, dependent on context, and largely pragmatic when faced with institutional and electoral constraints (De Wispelaere and Stirton, 2004; Chrisp, 2020). Political parties that express support of UBI tend to portray it as a long-term goal, particularly when those parties have a reasonable chance of governing, and thus combine UBI advocacy with a series of more modest reforms pitched as steps towards a UBI or, at the very least, consistent with the vision and principles of the policy. These typically include the removal or relaxation of various forms of conditionality attached to benefits, whether behavioural conditions such as job search requirements or means testing. However, steps towards a UBI also often include raising the level of minimum income benefits, the simplification or integration of benefits or the increased capacity to combine benefits with earnings among a wide variety of individual reforms.

Such a perspective also aligns with other proposals in the UK policy context from the Joseph Rowntree Foundation and Trussell Trust for an 'Essentials Guarantee' (Bannister et al., 2022), the New Economic Foundation's National Living Income proposal (Tims and Sterling, 2022) and the shift by the Scottish government from exploring the feasibility of a basic income pilot to the establishment of a Minimum Income Guarantee research group. Although in the abstract such proposals stand in stark contrast to the universal nature of a UBI, they are very similar to both the kinds of manifesto commitments found in UBI-supporting party documents and the policies tested in so-called basic income pilots.

Thus, the motivation of these microsimulations is to explore the cost and distributional consequences of such policy proposals, including examining individual steps that are relatively modest in nature and a combined or cumulative approach that would constitute considerable movement in the direction of less conditionality within the UK social security system. While these reforms would maintain Universal Credit and household means-testing as a core part of the social security system, they would greatly increase the level of support to low-income households and ease the burdens associated with many of the rough edges of the existing work-first benefit system.

2

Context

Context

The UK's social security system represents something close to the archetypal liberal welfare regime (Esping-Andersen, 1990). Although the National Health Service offers a glimpse into an alternative ideological and institutional history outside of the benefit system (Bambra, 2005), the UK's social security benefits are residual and largely funded by general taxation, with a significant reliance on flat-rate and means-tested benefits. Unlike most other European countries, earnings-related benefits and the principle of earnings replacement have historically played a relatively minor role, with some elements introduced in the 1960s for pensions, sickness and unemployment, which were then abolished or cut back in the 1980s. Reform has proceeded in incremental and evolutionary fashion, and there are considerable continuities of policy and administration over time (Kelly and Pearce, 2023). There is also a very limited role for trade unions and employers in decision-making and administration, with policy centralised in government departments.

The Beveridgean model of flat-rate insurance benefits is most evident today in the pension system, where recent reforms have removed the state earnings-related component and increased the basic, single-tier pension to such a level that means-tested supplements are significantly reduced, mostly supporting those without a complete contribution record (Massala and Pearce, 2022). On the other hand, for the working-age population, there has been a contrasting trend evident in the steady erosion of the value of unemployment benefits. If excluding housing benefits, the UK now has the lowest unemployment net replacement rate for single people in the OECD due to its exceptionally low flat-rate unemployment benefit.[1] Combined with the cross-party consensus on targeting resources at 'deserving' groups since the 1980s, namely (working) families, this has led instead to the dominance of means-tested benefits for the working-age population, culminating in the creation of Universal Credit.

Universal Credit is an amalgamation of six pre-existing means-tested benefits – Income Support (last-resort social assistance), income-tested Jobseekers Allowance (unemployment benefit), income-tested Employment and Support Allowance (disability benefit), Housing Benefit, Child Tax Credits (family benefits) and Working Tax Credit (in-work benefits), now collectively referred to as legacy benefits. Universal Credit was first introduced by the Conservative-Liberal Democrat coalition, which started the gradual roll-out of the policy in 2013, with an aim of completely replacing legacy benefits by 2024/25. The objectives of the policy were manifold (Millar and Bennett, 2017), but at its core the creation of a single means-tested benefit and a single taper rate[2] (initially 65 per cent,

1 It should be stated that although it has been well-protected in recent years in a context of austerity, the net pension replacement rate is also low relative to other European countries for workers on an average wage.

2 The rate at which the maximum Universal Credit award is reduced as earnings increase.

since reduced to 63 per cent and now 55 per cent) for each household receiving Universal Credit was intended to reduce bureaucracy for the Department for Work and Pensions (DWP) and for applicants and provide a clear incentive to work. While the new policy faced many implementation problems leading to delays in its early years (Timmins, 2016), it is now the main source of support for low-income households both in and out of work, such that over seven million households were in receipt of it in October 2024. The government plans to end the final migration from legacy benefits by the end of March 2025.

As well as representing the apex of means testing logic in the benefit system, Universal Credit was also designed to ramp up the UK's long-standing 'work-first' approach in labour market policy, with an extensive role for benefit sanctions and conditionality. In 2014, the UK had one of the strictest conditionality regimes in the OECD (Langenbucher, 2015), including the strictest job search requirements and monitoring of any country. There was briefly a period after 2017 in which the government acknowledged it needed a more balanced approach and reduced the maximum sanction period; government statistics suggest show the sanction rate fell. However, after Covid-19 restrictions were relaxed the sanction rate rose sharply and government rhetoric around sanctions has intensified.

Finally, recent governments have also cut back on family benefits. For example, in 2015, the Conservative government introduced a two-child limit in Universal Credit such that households with more than two children born after April 2017 could not claim the child element for those children (currently £269.58 a month per child). Unsurprisingly this has caused significant hardship among large families (Andersen, 2023). The Coalition also ended the universality of Child Benefit in 2012, which had existed since 1977, and in its previous form as Family Allowances since 1946. Households with children that have an individual member earning above £50k need to pay a High Income Child Benefit Charge equal to one per cent of the value of the Child Benefit they receive for every £100 above £50k they earn, such that all of the Child Benefit will have been paid back if they earn £60k or above. While this means a rate of roughly 12.5 per cent on gross income for those with one child, for someone with four children the charge increases their marginal effective tax rate by over 37 percentage points. Often referred to as 'affluence testing' rather than means testing due to the high income level at which withdrawal of the benefit kicks in, similar reforms have been introduced in countries such as Canada and Denmark in an attempt to rein in costs. Nevertheless, many of the same issues that typically beset means-tested benefits – high marginal effective tax rates, bureaucratic load and lower take-up among entitled households – have raised concerns about the value of such a reform (Seely, 2023).

Overall, much of this context points to the incompatibility of UBI with existing logics within social security, but there are also clear reasons to think that the UK could be a warm climate for UBI-like policy (Martinelli and Pearce, 2019). The centralisation of benefit policy and the absence of union vetoes and of earnings-related benefits provides an environment

in which political parties and governments intent on instigating structural reform to the benefit system face few barriers. Although the dominant role of Universal Credit as a household means-tested system would make any attempt to abolish means testing altogether extremely difficult, there are still many changes that could be made to significantly reduce conditionality across multiple dimensions. Exploring the costs and consequences of these modest but significant changes is the primary aim of this paper.

3

Outline of the microsimulation and method

Outline of the microsimulation and method

To understand the costs and consequences of our proposed steps towards basic income we use UKMOD (Richiardi et al., 2021), an open-source tax-benefit microsimulation model for the UK. It is particularly useful for answering 'what if' questions about the consequences of tax-benefit *reforms* such as the ones we explore. We focus in our analysis on the overall budget costs, i.e. the increase in government expenditure required to fund the policy, and the effects on overall levels of poverty, child poverty (0–18-year-olds) and elderly poverty (over 65s). We also sketch in a more informal manner the consequences of our reforms on marginal effective tax rates for specific groups.

UKMOD uses Family Resources Survey micro-level data on individuals and households combined with up-to-date policy rules. The Family Resources Survey data were collected between April 2019 and March 2020, with consumption data imputed from the Living Costs and Food survey collected over the same period. These data are considered in combination with tax and benefit policy details for 2025/26 as set out by the 2024 Autumn Budget Statement.

For each policy alternative we report the gross cost for the public budget and the associated distributional consequences. We also examine what changes in progressive taxation would be needed to fund the respective policy alternatives. The reforms to income tax that we consider involve increasing all marginal tax rates below the Higher Rate Threshold (the maximum income on which the basic rate of income tax is paid) by half the percentage point increase considered for rates above the threshold. For example, a one percentage point increase in the basic rate (to 21 per cent) would be associated with a two percentage point increase in the higher and top rates (to 42 per cent and 47 per cent respectively).[3]

Budget neutrality was identified by adjusting higher and top income tax rates by 0.1 percentage point increments until the closest approximation to the baseline budget was found. These increments typically obtain a value for the (annual) net government budget within £500m of the simulation baseline of £280bn.[4] Although the UK government does not tend to increase marginal tax rates by fractions of a percentage point, we find that the budget-neutral adjustments provide an intuitive alternative for illustrating the costs of the considered policy interventions.

3 Income taxes are devolved to Scotland where an alternative tax schedule is now applied. In this case, we distinguish between the Scottish starter, basic and intermediate rates on the one hand, and the higher, advanced, and top rates on the other. Common taxes are imposed throughout the UK on savings and dividends income.

4 Net tax and benefit income of the Government projected from the 2025 fiscal year.

We focus on relative poverty measured with reference to a poverty line set at 60 per cent of median household income, calculated after accounting for housing costs. All of our indicators of poverty use a floating rather than fixed poverty line to reflect changes in the income of the median household. Therefore, a household may fall into poverty despite not seeing any reduction in their income, where a policy change increases the income of the median household. Although this may seem counter-intuitive, it remains true to the definition of relative poverty that is a primary focus in contemporary public policy debate.

4

Key policies tested

Key policies tested

The baseline simulation reflects tax and benefits policy for April 2025 to March 2026 implied by the Autumn Budget presented by Government on 30 October 2024. The analysis starts with the assumption that all individuals have transitioned from Legacy Benefits to Universal Credit, and considers take-up rates for various benefits that reflect the most recently available public data. This policy baseline is described by the UK_2025 system provided with UKMOD in its B2024.16 public release. The simulated projections account for a large share of tax and benefit payments currently applied in the UK (see van de Ven and Popova, 2024, for details), including both direct tax and benefit payments and indirect taxes and excises.[5]

The first incremental reform to the simulated baseline **omits wealth means-testing from the tax and benefit system**. Universal Credit and Pension Credit currently means test wealth by imputing 'tariff income' for financial capital in excess of disregards. Universal Credit (Pension Credit) calculates tariff income at the rate of £1 per week for each £250 (£500) of capital in excess of £6,000 (£16,000), implying an implicit annual rate of return in excess of 20 per cent (10 per cent). Furthermore, both Universal Credit and Pension Credit limit eligibility to people with financial capital under imposed thresholds. The first incremental reform consequently replaces tariff income with reported investment income, and omits upper bounds on financial capital for benefits eligibility.

The second incremental reform **reduces the Universal Credit taper rate on income to 40 per cent** from 55 per cent. This reform reduces marginal effective tax rates for individuals already in receipt of the benefit, and extends eligibility to a wider segment of the population. The corollary is that some individuals who would be made eligible to Universal Credit by the reform would also see their effective marginal tax rates increase. We discuss associated implications for the analysis toward the end of Section 5.

The third reform **increases the standard Universal Credit allowance** to £138 per week for all single people and to £230 per week for all couples. These rates are appreciably higher than payable under the simulation baseline. The baseline projects benefits worth £73.10 per week for single people under age 25, £92.28 per week for single people aged 25 and over, £114.74 per week for couples both under 25, and £144.85 for couples with at least one member aged 25 or over. Our chosen rates are uprated from the campaign by the Joseph Rowntree Foundation and Trussell Trust for an Essentials Guarantee, which were £120 a week for single people and £200 a week for couples in 2022.

5 Projections for Value Added Taxes, specific and ad valorem excise payments were obtained using the TCO add-on for UKMOD. This aspect of the analysis motivated use of data from 2019, due to delayed release of the 2022 wave of the Living Cost and Food survey. The adapted version of the model considered for analysis reported here is available from the authors upon request.

The fourth reform **removes income means-testing from Child Benefit**. As discussed above, prevailing policy – in common with the simulated baseline – includes a High Income Child Benefit Charge, which gradually withdraws child benefit for any income that an individual earns above £60,000 per year until an individual no longer receives it above £80,000 per year.

The fifth reform **omits the two-child limit in Universal Credit**. Prevailing policy increases benefits with respect to the first two dependent children, limiting support for any additional children a household may include. Relaxing this limitation is an important step in normalising benefits provision in respect of each citizen.

The sixth and final reform **increases the level of Child Benefit for each child** to £34.50 per week. This increases rates payable under the baseline, from £26.05 per week for the first child, £17.25 for all additional children. Compared to the increase in the standard allowance this is a relatively modest change but still amounts to a 32 per cent increase in the value for the first child and over 50 per cent for subsequent children, harmonising the rate for each child.

Each reform set out above is designed with universality, limited conditionality, and income adequacy in mind. They are designed to provide an income floor to households in a way that is likely to reduce bureaucracy and insecurity in context of an otherwise complex tax and benefit system. As stated previously, the reforms set out here may not attract universal support from UBI advocates, but do reflect common features previously suggested by political actors that support UBI more generally (Chrisp, 2020).

5

Results

Results

We start by reporting the gross cost of each of the incremental reforms if implemented alone rather than as a group. Table 1 displays projected gross costs and budget-neutral adjustments, in multiples of 0.1 percentage points of income tax rates above the Higher Rate Threshold and 0.05 percentage points in rates below the threshold.

The table indicates that omitting wealth means-testing from the UK tax and benefit system is the least costly of the reforms considered for analysis, reducing net annual returns to the public purse by £1.0bn (in 2025 prices). This cost is projected to be approximately offset by increasing rates of income tax under the Higher Rate Threshold by 0.1 percentage points and rates above the threshold by 0.2 percentage points.

Scrapping the two-child limit is the next least costly reform considered for analysis, projected to reduce net government revenue by £1.8bn in 2025. This reform is approximately offset by increasing rates of income tax under the Higher Rate Threshold by 0.15 percentage points and rates above the threshold by 0.3 percentage points. Removing means-testing from the Child Benefit is projected to cost an additional £1bn, to an overall cost of £2.7bn, requiring a further 0.1 percentage point increase to rates of income tax above the Higher Rate Threshold (overall increase of 0.4 percentage points).

Normalising Child Benefits payable for each child to £34.50 per week is projected to cost £5.2bn per year, just under twice the cost of removing means-testing from the Child Benefit. As we assume here that there are no behavioural responses to alternative policy alternatives, the increase in taxes required to offset the reform is also twice that projected for the means test; equal to 0.4 percentage points in the basic rate and 0.8 percentage points in higher tax rates. Note that these projections consider only payments for the first and second child, as they are projected without relaxing the two-child limit discussed above.

The next most costly reform is to reduce the taper rate on income imposed by Universal Credit from 55 per cent to 40 per cent. This reform is projected to reduce net annual receipts of the government by £7.5bn, and requires off-setting increases equal to 0.55 percentage points for basic rates and 1.1 percentage points for higher rates of income tax. This reform is relatively expensive because it both boosts the benefits payable to people in absence of the reform, and extends eligibility to a wider segment of the population.

Finally, the big-ticket item on our reforms menu is the increase in standard allowances payable by Universal Credit. As discussed in Section 4, we consider here allowances that almost double those payable to the population under age 25 under the simulation baseline. The new allowances are projected to cost the government £13.4bn per year, and would be approximately offset by increases in income tax rates of 1.0 percentage

points below the Higher Rate Threshold, and 2.0 percentage points above the threshold.

Table 1: Estimated gross cost of individual reforms to the benefit system and suggestive changes to income tax required to cover the cost

Individual policy reform	Estimated gross cost	Budget-neutral tax adjustments
Omit wealth means test	£1.031bn	Basic: +0.10pp; Higher: +0.2pp
Universal Credit (UC) income taper rate to 40%	£7.473bn	Basic: +0.55pp; Higher: +1.1pp
Adjust UC allowances	£13.396bn	Basic: +1.00pp; Higher: +2.0pp
Omit Child Benefit (CB) means test	£2.729bn	Basic: +0.20pp; Higher: +0.4pp
Omit two-child limit in UC	£1.772bn	Basic: +0.15pp; Higher: +0.3pp
Adjust CB allowances	£5.274bn	Basic: +0.40pp; Higher: +0.8pp

We now turn to the consequences for poverty, measured as relative poverty after housing costs, for the overall population and separate poverty measures for households including children and elderly members. All poverty measures are for policy reforms that omit consideration of budgetary-neutral tax adjustments and have floating poverty lines, meaning that changes to the income of the median household will affect the poverty line.

Figure 1 shows that prior to any intervention the poverty rate is 20.42, while Figure 2 shows that the current child poverty rate is much higher, at 28.39 per cent, and elderly poverty in Figure 3 is 20.66 per cent.

The subsequent individual reform that most reduces poverty is the increase in the standard allowance. Implementing this would reduce overall poverty rates to 17.49 per cent (a reduction of 2.93 percentage points) and child poverty rates to 23.02 per cent (-5.37pp). Reducing the Universal Credit taper rate to 40 per cent is the next most effective policy reform for reducing overall poverty rates to 19.26 per cent (-1.16pp), while it reduces child poverty rates to 25.57 per cent (-2.82pp). Increasing and harmonising the level of Child Benefit is a marginally more effective policy reform for reducing child poverty to 25.11 per cent (-3.28pp) and marginally less effective reform for reducing overall poverty rates to 19.41 per cent (-1.01pp). The least effective poverty reduction strategy is the removal

of the High Income Child Benefit Charge. This actually increases overall poverty rates by 0.19 percentage points to 20.61 per cent and child poverty by 0.24 percentage points to 28.63 per cent. The removal of the savings means test is also underwhelming from a poverty reduction perspective leading to a 0.23 percentage point reduction in overall poverty rates and only 0.31 percentage point reduction in child poverty.

Figure 1: Overall poverty rates after housing costs income, by policy scenario

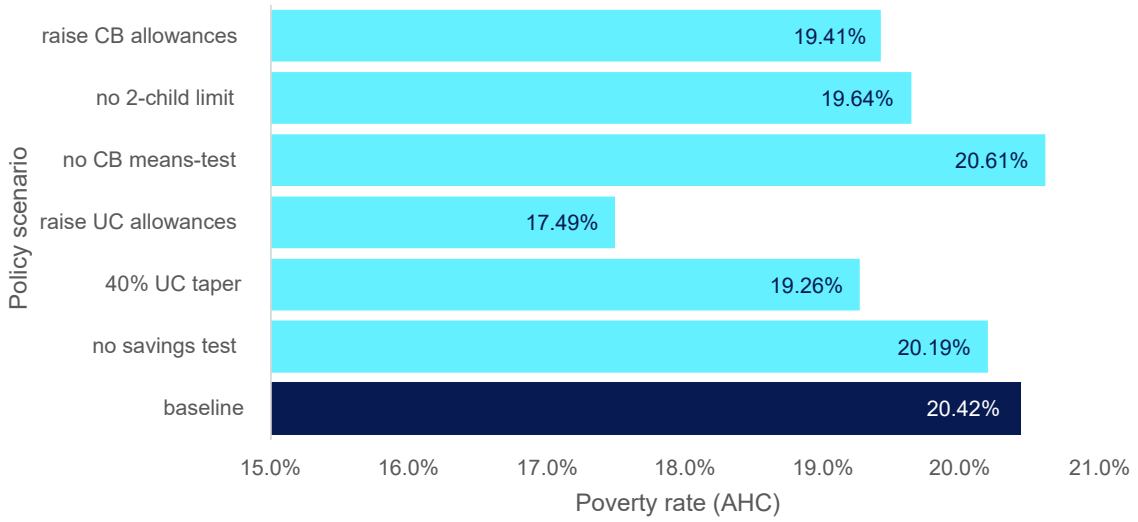
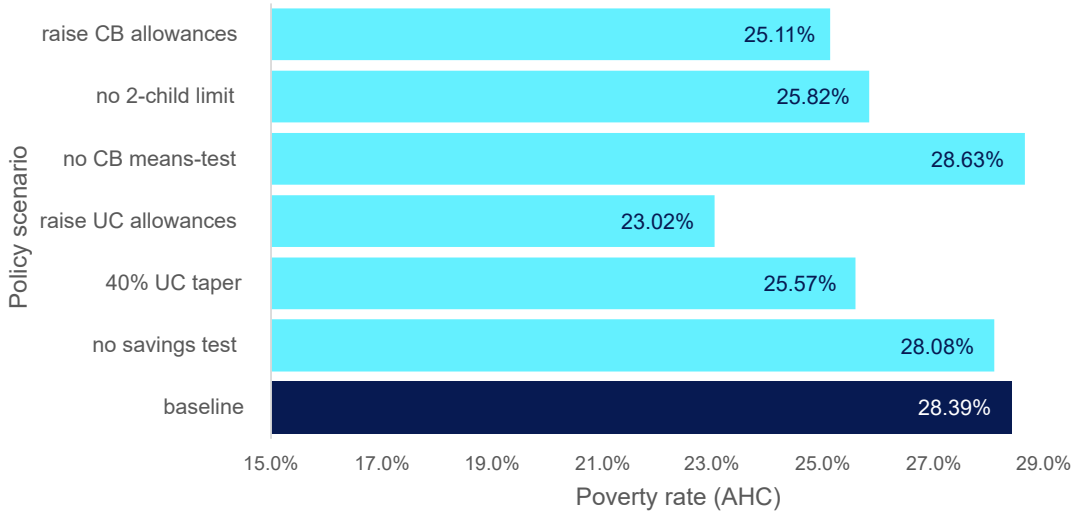


Figure 2: Child poverty rates after housing costs income, by policy scenario

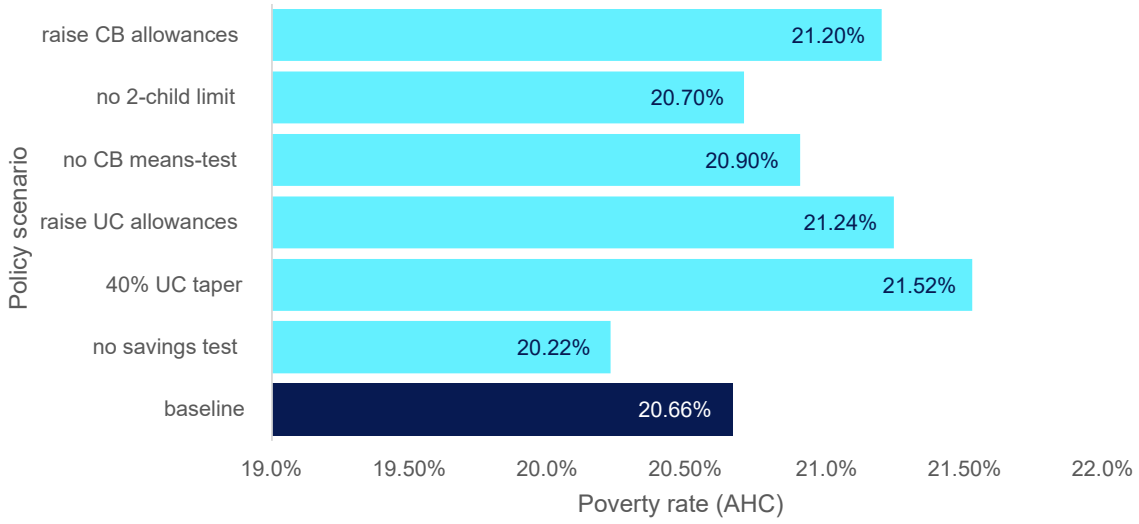


As all of these reforms focus mostly on the working-age population, it should be relatively unsurprising that they do not have a dramatic impact on elderly poverty rates. In fact, Figure 3 shows that all reforms except for the removal of the savings means test increase elderly poverty as they increase the income of the median household while not providing additional

income to the vast majority of elderly households who will rely on a state pension. The removal of the savings means test reduces elderly poverty by 0.44 percentage points to 20.22 per cent, likely due to the fact that there are at least some elderly households that could be eligible for Universal Credit with a significant amount of savings. The increase in the standard allowance, reduction in the taper and the increase in Child Benefit have the most significant impact on the income of the median household and therefore increase elderly poverty the most, albeit less than one percentage point in all cases.

In the Appendix, we also show the consequences for poverty applying the illustrative income tax increases to cover budget neutrality. Figures A1-3 show the effect on overall poverty, child poverty and elderly poverty of introducing these taxes alongside the reforms. In all cases, poverty is reduced further primarily due to the consequences for the incomes of the median household, i.e. the increase in tax lowers the poverty line. Equally, the increases in poverty for elderly are smaller.

Figure 3: Elderly poverty rates after housing costs comparing the status quo to after the implementation of individual policy reforms

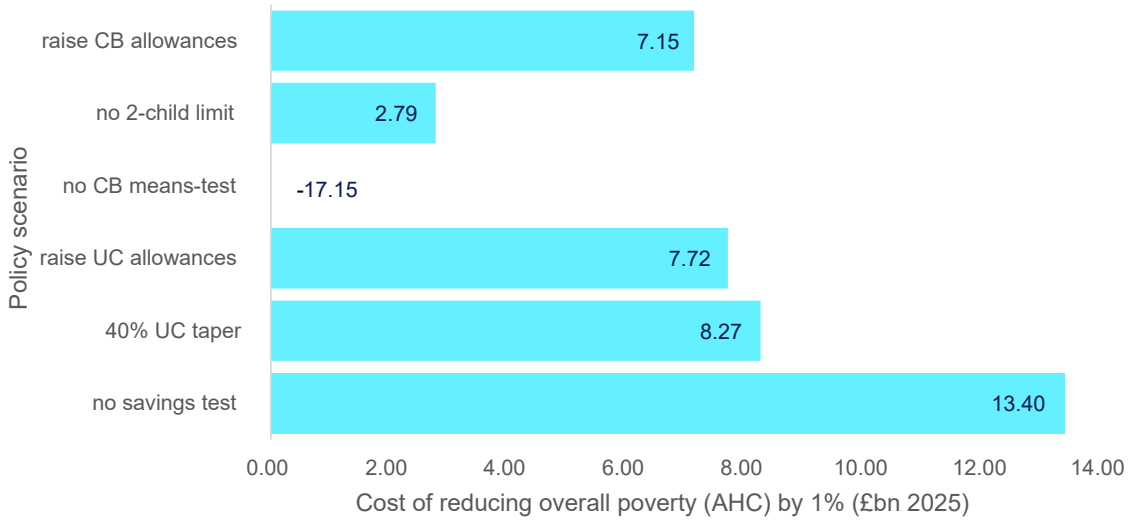


Of course, to some extent, the comparison of effects on overall poverty by policy reform are unbalanced due to the different gross costs of the reforms. One would expect more expensive individual reforms to be able to achieve more in poverty reduction if that is the stated aim. Thus, Figure 4 shows the gross cost in billions of pounds for every percentage point reduction in poverty from the level after assuming full take-up. This ratio is calculated simply by dividing the percentage point reduction in poverty by the gross cost in billions of pounds. The graph shows the extent to which the removal of the two-child limit is a very low-cost method of reducing poverty. Although raising the level of the standard allowance in Universal Credit leads to the most significant reduction in poverty, it is not necessarily the most 'efficient' reform, costing £7.72bn for each percentage

point reduction in poverty. Although the standard allowance is seemingly targeted at supporting those on the lowest incomes, the nature of the taper in Universal Credit means that any increase in the standard allowance is felt by all recipients of the benefit further up the income spectrum.

The most expensive reform viewed through the lens of percentage point reduction in poverty would be the removal of the savings means test costing £13.4bn per percentage point reduction in poverty. As the removal of the High Income Child Benefit Charge increases poverty, it appears in the chart as -17.15 and it should be seen as the worst-performing reform from this perspective, although it should be noted that a higher negative number here is preferable. Of course, these reforms are not solely or even primarily concerned with poverty reduction, which we discuss in more detail at the end of this section.

Figure 4: Ratio of cost of policy reform to the percentage point reduction in overall poverty after housing costs



Next, Table 2 shows the estimated gross cost of cumulatively implementing each reform from top to bottom. This is most interesting for illustrating how interactive these steps can be for questions of cost and affordability. While increasing the standard allowance in the status quo would cost a little over £13.4bn, doing so after reducing the taper rate (and removing savings means test and finishing Universal Credit migration) would cost nearly £20bn as an additional measure. Similarly, increasing Child Benefit as an individual measure would cost just over £5bn but after making it universal again (alongside the other reforms), the cost increases to over £6.5bn. Implementing all six steps is estimated to cost £40.016bn, which would require an increase of three percentage points in the basic rate and six percentage points in the higher and top rate to reach approximate budget neutrality.

Table 2: Estimated cumulative gross cost of reforms to the benefit system and suggestive changes to income tax required to cover the cost

Policy reform	Estimated gross cost	Budget-neutral tax adjustments
Omit wealth means test	£1.031bn	Basic: +0.10pp; Higher: +0.2pp
UC income taper rate to 40 per cent	£8.976bn	Basic: +0.65pp; Higher: +1.3pp
Adjust UC allowances	£28.520bn	Basic: +2.15pp; Higher: +4.3pp
Omit CB means test	£31.249bn	Basic: +2.35pp; Higher: +4.7pp
Omit two-child limit in UC	£33.336bn	Basic: +2.50pp; Higher: +5.0pp
Adjust CB allowances	£40.016bn	Basic: +3.00pp; Higher: +6.0pp

Turning again to the consequences for poverty rates, Figure 5 shows that implementing all six policy steps would see overall poverty after housing costs fall to 15.86 per cent. This would equate to a 4.56 percentage point reduction from the status quo. Figure 6 shows that child poverty would see an even more dramatic fall to 17.39 per cent, which would be an 11 percentage point reduction.

Figure 5: Overall poverty rates after housing costs comparing the status quo to after the implementation of cumulative policy reforms from bottom to top

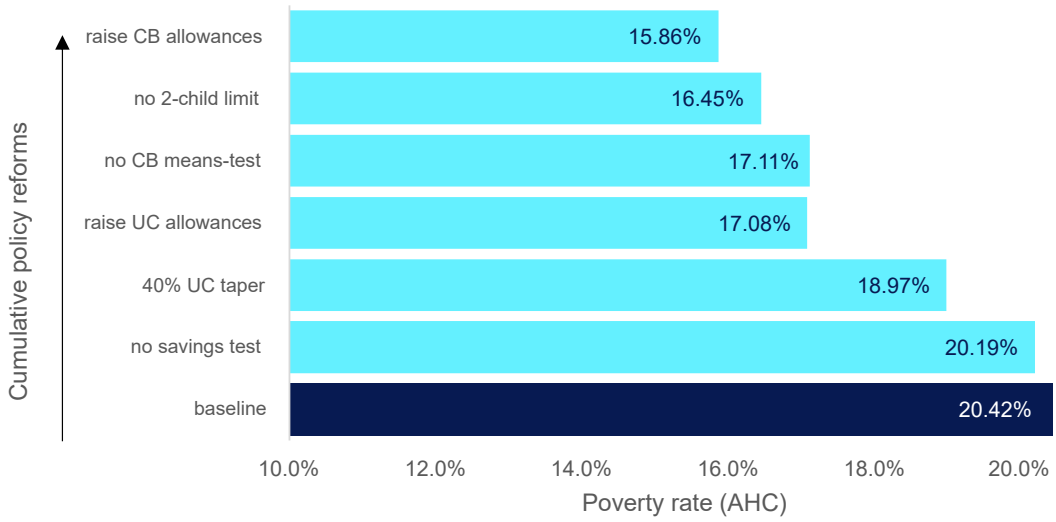
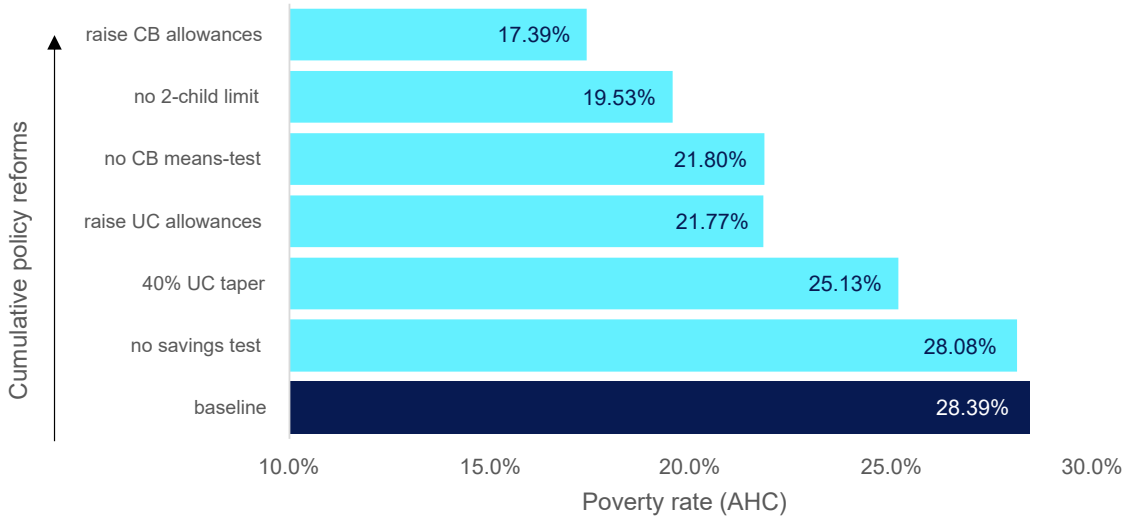
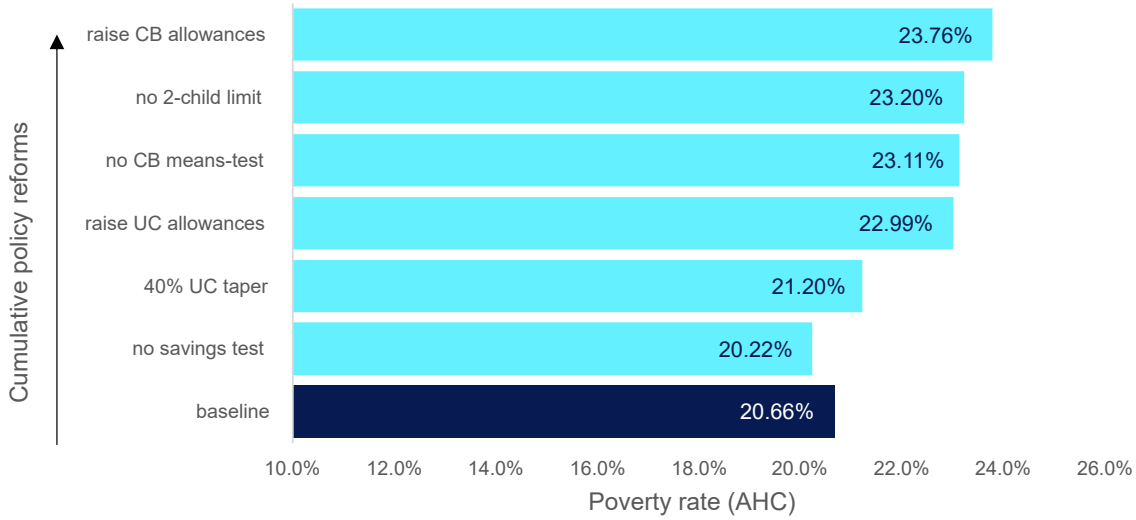


Figure 6: Child poverty rates after housing costs comparing the status quo to after the implementation of cumulative policy reforms from bottom to top



As with the individual policy reforms, the effect on elderly poverty rates is negative rather than positive, with Figure 7 showing elderly poverty reaching 23.76% by the end of the full set of six policy reforms (+3.1pp). This highlights the fact that such a focus on policies to address working-age poverty risks leaving the elderly behind and it may require a more balanced approach.

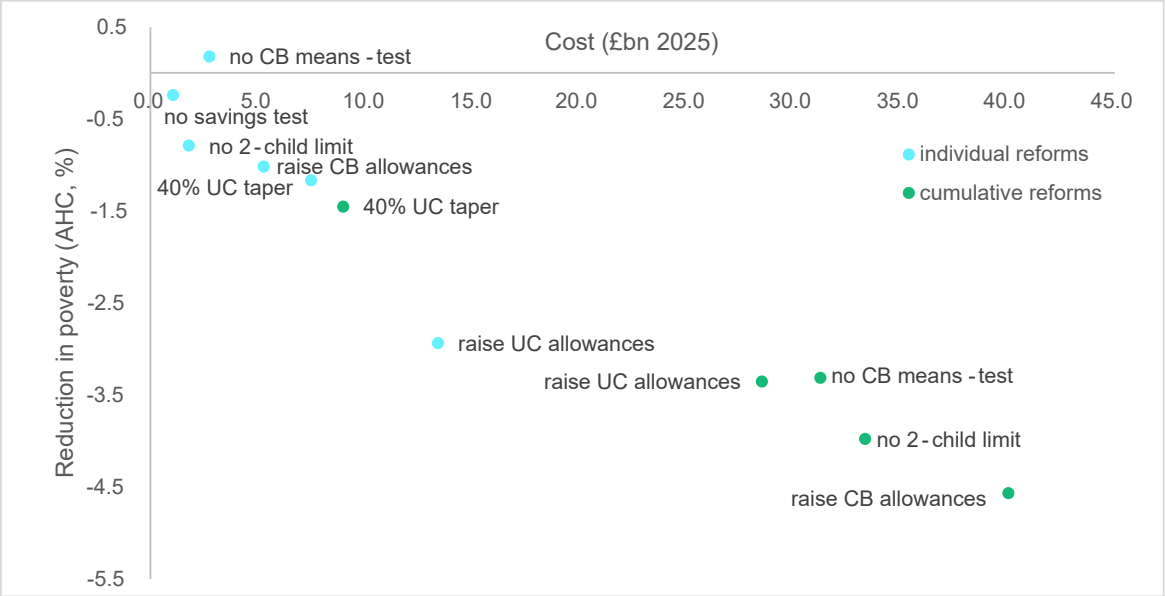
Figure 7: Elderly poverty rates after housing costs comparing the status quo to after the implementation of cumulative policy reforms from bottom to top



Combining both the cost and poverty consequences of individual and cumulative reforms, Figure 8 shows the apparent cost efficiency of reducing poverty across all our examples. The cost per percentage point of the full set of reforms suggests it is relatively inefficient at £8.78bn per

percentage point reduction in poverty. This is partly due to the fact that increasing Child Benefit and the standard allowance in Universal Credit are less targeted when the High Income charge is removed and the taper is reduced to 40 per cent. There is also the fact the difficulty with reducing relative poverty (with a floating poverty line in particular) increases as the overall level falls, so this should not be particularly surprising.

Figure 8: Comparison of the percentage point change in overall poverty after housing costs and the gross cost in billions of pounds of individual and cumulative policy reforms



Finally, we do not do a full analysis of the changes in marginal effective tax rates in this paper, but it would be useful to discuss what the expected consequences of these reforms would be. The two main policy reforms we have included that are specifically proposed with reducing marginal effective tax rates in mind are the reduction in the taper rate in Universal Credit to 40 per cent and the removal of the High Income Child Benefit Income Charge. However, every policy will affect marginal effective tax rates in at least some way as they change who can receive Universal Credit and at what income level and thus bring new households into the situation of facing benefit withdrawal. This reflects the unavoidable trilemma or 'iron triangle' (Blundell, 2001) in tax-benefit policy of increasing generosity, reducing marginal effective tax rates for low-income households and containing costs (i.e. keeping marginal effective tax rates for higher income households down if funded through income tax). We ignore council tax benefit, employer National Insurance, pension contributions and student loan repayments in the below.

For those receiving Universal Credit that earn below the threshold for income tax and National Insurance of £12,500, their marginal effective tax rate would go from 55 per cent to 40 per cent, while those receiving Universal Credit earning between £12,500 and the Higher Rate Threshold,

their marginal effective tax rate would fall from just under 67.6 per cent to 56.8 per cent.[6] However, for any households previously not receiving Universal Credit who would now be eligible, their marginal effective tax rates would increase from 0 per cent (if earning under £12,500) to 40 per cent or from 28 per cent to 56.8 per cent (if earning above £12,500).

There are currently few higher rate taxpayers that receive Universal Credit, but their current marginal effective tax rate, ignoring other factors for now, would be 73.9 per cent. The reduction of the taper rate to 40 per cent would make this fall to 65.2 per cent. However, the reduction of the taper rate would inevitably increase the number of higher rate taxpayers that are eligible for Universal Credit and increasing the standard allowance would exaggerate this further. For these households, the marginal effective tax rate would increase from 42 per cent to 65.2 per cent.

It is worth stating that most of these households would also be subject to the High Income Child Benefit Charge. If earning between £60k and £80k, then this increase in marginal effective tax rates from the increased eligibility for Universal Credit would be countered by the removal of the High Income Child Benefit Charge. As a rough sketch, a household with an individual earning £55k and three children not currently receiving Universal Credit would face a marginal effective tax rate of roughly 71 per cent (42 per cent for income tax and National Insurance + 29.016 per cent for the High Income Child Benefit Charge). If the reforms examined here brought them within eligibility for Universal Credit (due perhaps to being a single earner household with high housing costs), their marginal effective tax rate prior to the removal of the High Income Child Benefit Charge would be 92.6 per cent. Abolishing the Child Benefit charge would lower this to 65.2 per cent.

This discussion shows that there is no ultimate solution to the so-called 'iron triangle' of benefit policy, but that the policy reforms here would broadly redistribute disincentives to work from the most extreme cases to others, with marginal effective tax rates lowered from those at extremely high rates to those with low rates, as is typically the stated aims of UBI policy reforms. We will do more specific analysis in a future paper.

6 Factoring in the recent fall in the rate of national insurance to 10 per cent would make this a fall from 68.5 per cent to 58 per cent.

6

Discussion

Discussion

This paper has looked at six reforms that could be characterised as steps towards a UBI or a minimum income guarantee in the UK (or indeed valuable reforms in their own right). With a UBI in mind, however, there are other reforms not modelled here that could be considered a step in the direction of such a policy system. One example would be universalising the State Pension to all residents without a contribution record. In many ways this would be a logical extension of existing reforms, which not only increased the generosity of the single-tier pension but also increased the number of things for which residents could claim as National Insurance credits, such as receipt of Child Benefit. Another example would be introducing a Young Person's Basic Income or the extension or reintroduction of an Education Maintenance Allowance-style payment. This could be entirely unconditional, as in the case of the Welsh care leavers basic income pilot, or weakly conditional on participation in education, skills or employment activities. It could be combined or implemented separately to attempts to integrate all elements of support for young people into a single allowance or payment, including those from Universal Credit and support such as student loans and bursaries. Perhaps the most radical step towards a UBI for working-age adults, however, would be individualising entitlements to elements of Universal Credit. This would be a major change in the UK welfare state.

We acknowledge some important limitations in our approach. Firstly, we would need to use the latest Family Resources Survey data and indeed the 2023-24 tax and benefit system for more precise costings relevant to a General Election year. As with all straightforward microsimulation analysis, the results also show the static effects of policy changes, not dynamically accounting for behavioural change. It is unlikely in the full cumulative reform scenario that there would be no behavioural changes, but we remain relatively sceptical that such changes can be predicted a priori given their complexity for different groups. Relatedly, we do not fully engage with the notion of minimum income guarantees conceived of bringing all residents to a specific level and we also do not fully account for the interactions of wages and welfare. Our analysis focuses on policy reforms alone.

Nonetheless, we believe that this paper serves to contribute (at least) two important things. First, we hope to provide a reliable evaluation of possible policy reforms that any progressive government would be interested in implementing with the aims of reducing poverty, increasing coverage and reducing bureaucratic traps. Second, we aim to reframe the debate around UBI and Universal Credit away from polar opposition towards consideration of the ways in which we can move from the existing Universal Credit system towards a more universal, less conditional and more adequate social security system. We believe that advocates of UBI should consider such incremental reforms of the UK welfare state as plausible and desirable, and consistent with their normative ambitions.

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Appendix

Appendix

Figure A1: Overall poverty rates after housing costs when individual policy reforms are accompanied by changes to income tax to cover the costs

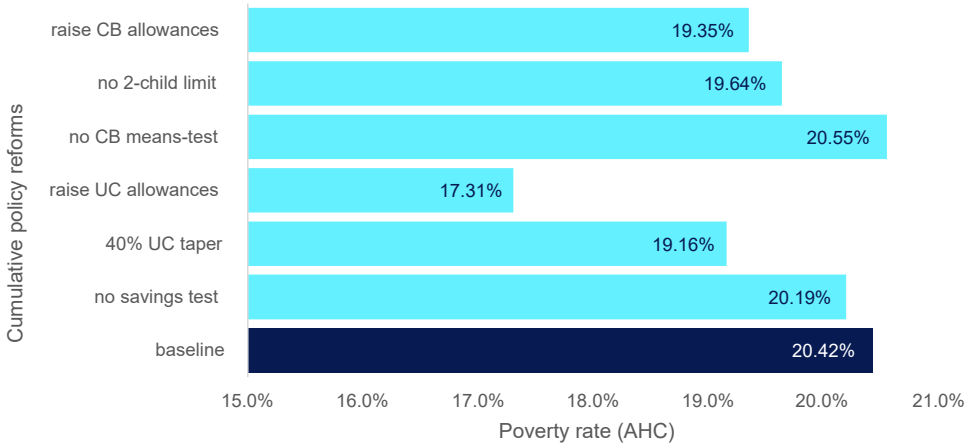


Figure A2: Child poverty rates after housing costs when individual policy reforms are accompanied by changes to income tax to cover the costs

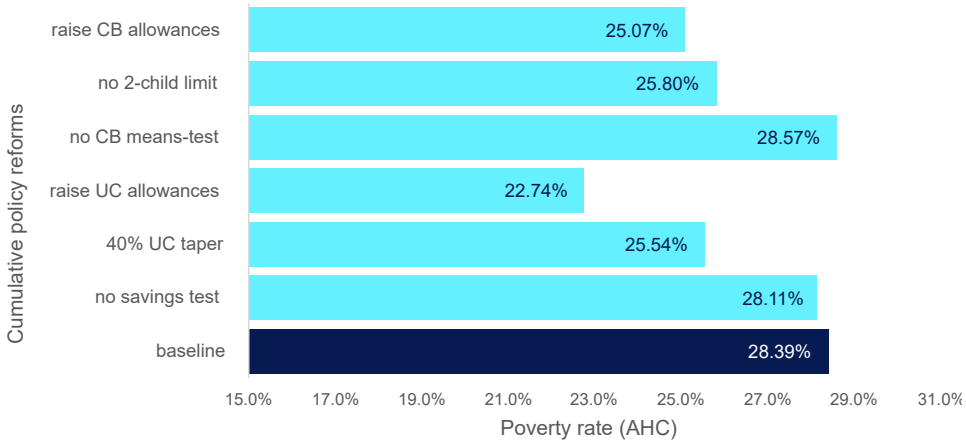
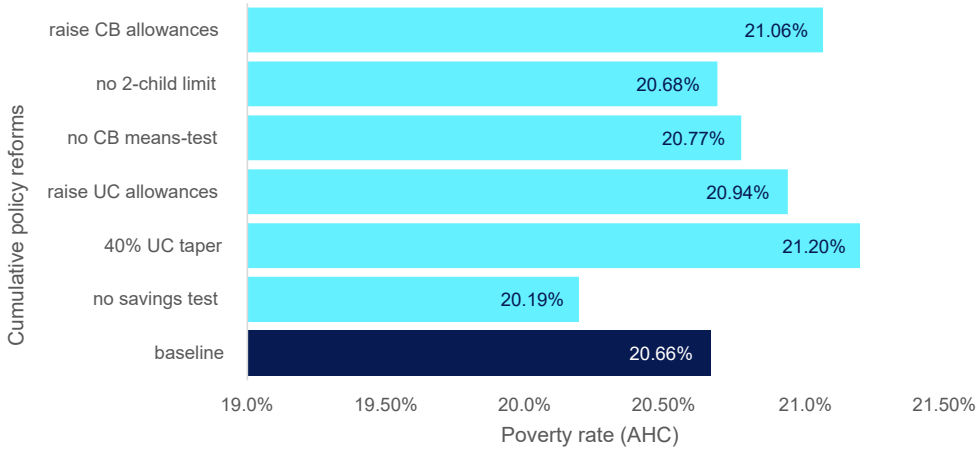


Figure A3: Elderly poverty rates after housing costs when individual policy reforms are accompanied by changes to income tax to cover the costs



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